

Business Situation

Final Estimates for the Fourth Quarter of 2003

ACCORDING to the “final” estimates of the national income and product accounts (NIPAs), real GDP increased 4.1 percent in the fourth quarter of 2003 (table 1 and chart 1).¹ The “preliminary” estimates released in February also showed a 4.1-percent increase for the quarter. In the final estimates, upward revisions to consumer spending and to nonresidential fixed investment were offset by downward revisions to private inventory investment and to government spending (table 2).²

The fourth-quarter increase of 4.1 percent followed a third-quarter increase of 8.2 percent. Real disposable

personal income also increased less in the fourth quarter than in the third. Inflation (measured by the price index for gross domestic purchases) slowed.

The deceleration in real GDP growth in the fourth quarter was mainly accounted for by consumer spending and foreign trade.

- Consumer spending increased 3.2 percent in the fourth quarter and contributed 2.29 percentage points to GDP growth, about half as much as it had contributed to third-quarter growth. Purchases of durable goods slowed sharply, mainly reflecting a downturn in motor vehicles and parts.
- Imports (which are subtracted in the calculation of GDP) and exports both increased more than in the third quarter, but the step-up in imports was

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (2000) dollars, and price indexes are chain-type measures.

2. In this article, “consumer spending” is shorthand for the NIPA series “personal consumption expenditures,” “inventory investment” is shorthand for “change in private inventories,” and “government spending” is shorthand for “government consumption expenditures and gross investment.”

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Chart 1. Real Gross Domestic Product

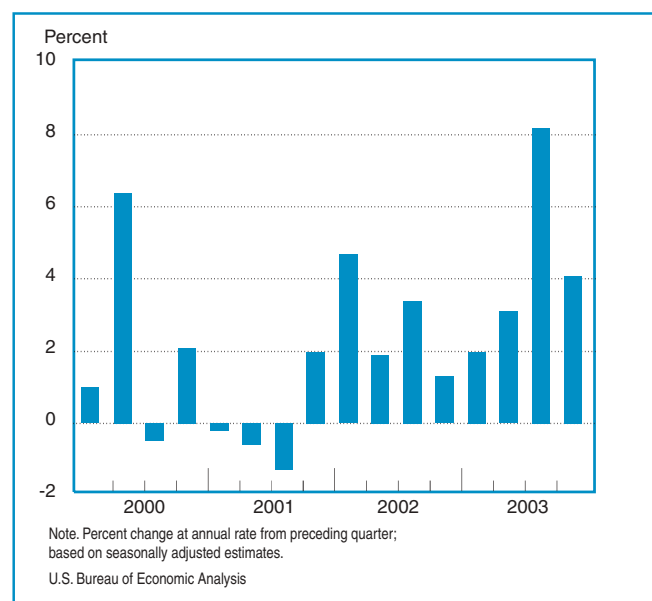


Table 1. Real Gross Domestic Product and Components

[Seasonally adjusted at annual rates]

	Change from preceding quarter (percent)				Contribution to percent change in real GDP (percentage points)				Share of current-dollar GDP (percent)
	2003				2003				2003
	I	II	III	IV	I	II	III	IV	IV
Gross domestic product ...	2.0	3.1	8.2	4.1	2.0	3.1	8.2	4.1	100
Personal consumption expenditures	2.5	3.3	6.9	3.2	1.80	2.34	4.89	2.29	70.3
Durable goods	0.5	17.7	28.0	0.7	0.04	1.38	2.23	0.06	8.6
Nondurable goods	5.7	1.2	7.3	5.4	1.13	0.25	1.48	1.07	20.1
Services	1.5	1.7	2.8	2.8	0.63	0.71	1.19	1.16	41.6
Gross private domestic investment	-3.5	4.7	14.8	14.9	-0.57	0.73	2.17	2.19	15.7
Fixed investment	1.1	6.1	15.8	9.9	0.16	0.90	2.30	1.48	15.6
Nonresidential	-0.6	7.0	12.8	10.9	-0.06	0.68	1.25	1.08	10.3
Structures	-4.0	3.9	-1.8	-1.4	-0.10	0.09	-0.04	-0.03	2.3
Equipment and software	0.5	8.0	17.6	14.9	0.04	0.59	1.30	1.11	8.0
Residential	4.5	4.5	21.9	7.9	0.22	0.22	1.05	0.40	5.3
Change in private inventories .....	.....	.....	.....	.....	-0.74	-0.17	-0.13	0.71	0.1
Net exports of goods and services .....	.....	.....	.....	.....	0.81	-1.34	0.80	-0.32	-4.4
Exports	-2.0	-1.1	9.9	20.5	-0.19	-0.11	0.92	1.81	9.8
Goods	1.9	-1.7	8.6	21.3	0.13	-0.11	0.56	1.29	6.8
Services	-10.1	0.2	12.7	18.9	-0.31	0.01	0.36	0.52	3.0
Imports	-6.8	9.1	0.8	16.4	1.00	-1.24	-0.12	-2.14	14.2
Goods	-6.6	13.7	-1.5	18.3	0.81	-1.51	0.18	-1.96	11.8
Services	-7.5	-10.9	13.4	7.5	0.19	0.27	-0.30	-0.17	2.4
Government consumption expenditures and gross investment	-0.4	7.4	1.8	-0.1	-0.07	1.36	0.34	-0.01	18.4
Federal	-0.2	23.5	1.2	0.7	-0.01	1.46	0.09	0.05	6.9
National defense	-5.6	41.9	-1.3	3.0	-0.25	1.58	-0.06	0.13	4.5
Nondefense	10.5	-5.0	6.5	-3.7	0.24	-0.12	0.15	-0.09	2.3
State and local	-0.5	-0.8	2.1	-0.5	-0.06	-0.10	0.25	-0.06	11.6
Addenda:									
Final sales of domestic product	2.7	3.3	8.3	3.4	.....	.....	.....	.....	.....
Gross national product (GNP)	1.5	3.3	8.3	5.5	.....	.....	.....	.....	.....

NOTE. The percent changes are from NIPA table 1.1.1, and the contributions to percent change are from NIPA table 1.1.2. The shares are from NIPA table 1.1.10. The addenda are from NIPA tables 1.4.1 and 1.7.1. See “Selected NIPA Tables,” which begins on page D-2 of this issue.

sharper and was only partly offset by the step-up in exports. Taken together, imports and exports subtracted 0.32 percentage point from GDP growth in the fourth quarter after contributing 0.80 percentage point to growth in the third quarter.

- Residential fixed investment contributed 0.40 percentage point to fourth-quarter GDP growth after contributing 1.05 percentage points to third-quarter growth. Most of the slowdown was accounted for by a downturn in brokers' commissions, as house sales dropped from the third quarter's record level.
- Government spending decreased slightly after increasing; it subtracted 0.01 percentage point from fourth-quarter GDP growth after contributing 0.34 percentage point to third-quarter growth. Federal

nondefense spending and spending by state and local governments turned down; in contrast, spending for national defense turned up.

- Investment in nonresidential equipment and software slowed somewhat, contributing 1.11 percentage points to GDP growth after contributing 1.30 percentage points. As in the third quarter, investment in nonresidential structures decreased modestly; the decrease was the 10th in the last 12 quarters.
- Private inventory investment contributed 0.71 percentage point to GDP growth in the fourth quarter after subtracting 0.13 percentage point from GDP growth in the third quarter.

The gross saving rate—saving from all sources as a percentage of gross national income—increased to 14.2 percent from 13.4 percent. The net saving rate increased to 2.5 percent from 1.6 percent. Gross saving includes the consumption of fixed capital (CFC). Net saving excludes CFC; thus, net saving is a measure of the saving that is available for augmenting the stock of fixed assets.³

The final estimates for the fourth quarter also show the following:

- Real final sales of domestic product (GDP less the change in private inventories) increased 3.4 percent after increasing 8.3 percent.
- Real gross national product (GNP) increased 5.5 percent after increasing 8.3 percent. GNP differs from GDP by the addition of income receipts from the rest of the world and the subtraction of income payments to the rest of the world.⁴ In the fourth quarter, income receipts increased sharply, and income payments increased moderately.
- Real gross domestic purchases increased 4.3 percent after increasing 7.0 percent.
- Real disposable personal income increased 0.5 percent after increasing 6.8 percent.
- The price index for gross domestic purchases increased 1.3 percent after increasing 1.8 percent; the slowdown primarily reflected a downturn in energy prices.

Table 2. Final and Preliminary Estimates for the Fourth Quarter of 2003

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter			Contribution to percent change in real GDP		
	Final estimate	Preliminary estimate	Final minus preliminary	Final estimate	Preliminary estimate	Final minus preliminary
Gross domestic product	4.1	4.1	0	4.1	4.1	0
Personal consumption expenditures	3.2	2.7	0.5	2.29	1.93	0.36
Durable goods.....	0.7	-0.1	0.8	0.06	-0.01	0.07
Nondurable goods.....	5.4	5.2	0.2	1.07	1.04	0.03
Services.....	2.8	2.2	0.6	1.16	0.91	0.25
Gross private domestic investment	14.9	15.8	-0.9	2.19	2.31	-0.12
Private fixed investment.....	9.9	9.3	0.6	1.48	1.39	0.09
Nonresidential.....	10.9	9.6	1.3	1.08	0.95	0.13
Structures.....	-1.4	-7.1	5.7	-0.03	-0.17	0.14
Equipment and software.....	14.9	15.1	-0.2	1.11	1.12	-0.01
Residential.....	7.9	8.6	-0.7	0.40	0.44	-0.04
Change in private inventories.....				0.71	0.92	-0.21
Net exports of goods and services				-0.32	-0.30	-0.02
Exports.....	20.5	21.0	-0.5	1.81	1.85	-0.04
Goods.....	21.3	21.2	0.1	1.29	1.28	0.01
Services.....	18.9	20.7	-1.8	0.52	0.57	-0.05
Imports.....	16.4	16.4	0.0	-2.14	-2.15	0.01
Goods.....	18.3	18.1	0.2	-1.96	-1.95	-0.01
Services.....	7.5	8.6	-1.1	-0.17	-0.20	0.03
Government consumption expenditures and gross investment	-0.1	0.8	-0.9	-0.01	0.16	-0.17
Federal.....	0.7	1.6	-0.9	0.05	0.11	-0.06
National defense.....	3.0	4.2	-1.2	0.13	0.19	-0.06
Nondefense.....	-3.7	-3.3	-0.4	-0.09	-0.08	-0.01
State and local.....	-0.5	0.4	-0.9	-0.06	0.05	-0.11
Addenda:						
Final sales of domestic product.....	3.4	3.2	0.2	.....	.....	.....
Gross domestic purchases price index.....	1.3	1.1	0.2	.....	.....	.....
GDP price index.....	1.5	1.2	0.3	.....	.....	.....

NOTE: The final estimates for the fourth quarter of 2003 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for December, bank services data for the quarter, and international transactions accounts data on net foreign travel for the quarter.

Nonresidential fixed investment: Revised construction put-in-place data for November and December.

Residential fixed investment: Revised construction put-in-place data for November and December.

Change in private inventories: Revised manufacturers' inventories for December, revised wholesale trade inventories for July–December reflecting the annual wholesale trade survey, inventories of electric utilities for November, and inventories of gas utilities for December.

Exports and imports of goods and services: Revised international transactions accounts data on services for the third quarter, new services data for the fourth quarter, and revised data on goods for December.

Government consumption expenditures and gross investment: Revised state and local construction put-in-place data for November and December.

Wages and salaries: Revised employment, average hourly earnings, and average weekly hours for December.

GDP prices: Revised export and import prices for October through December, revised unit-value index for petroleum imports for December, and revised prices of single-family houses under construction for the quarter.

3. Net saving was introduced in the recently released comprehensive revision to the NIPAs. It is calculated as the sum of personal saving, wage accruals less disbursements, undistributed corporate profits with inventory valuation and capital consumption adjustments, and government net saving.

4. Thus, GNP is a measure of the goods and services produced by labor and property supplied by U.S. residents, regardless of where they are located; GDP is a measure of the goods and services produced by labor and property in the United States, regardless of nationality.

Corporate Profits

Profits from current production increased \$81.4 billion (7.2 percent at a quarterly rate) in the fourth quarter of 2003 (table 3).⁵ Profits were 29.0 percent higher than in the fourth quarter of 2002. Taxes on corporate income increased \$13.1 billion (5.7 percent) in the fourth quarter, and after-tax profits from current production increased \$68.2 billion (7.6 percent).

More than half of the fourth-quarter increase in profits was accounted for by earnings received from foreign affiliates of U.S. corporations and dividends received from unaffiliated foreign corporations. These receipts increased \$49.1 billion (20.8 percent) and far

5. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown as "corporate profits with inventory valuation and capital consumption adjustments" in NIPA tables 1.7.5, 1.10–1.12, 1.14–1.16, and 6.16D. Percent changes in profits are shown at quarterly, not annual, rates.

Table 3. Corporate Profits
(Seasonally adjusted)

	Billions of dollars					Percent change from preceding quarter (quarterly rate)			
	Level	Change from preceding quarter							
	2003	2003				2003			
	IV	I	II	III	IV	I	II	III	IV
Current production measures:									
Corporate profits	1,205.6	-7.8	95.7	101.4	81.4	-0.8	10.3	9.9	7.2
Domestic industries	1,000.4	10.5	95.9	92.2	33.9	1.4	12.3	10.5	3.5
Financial	304.4	19.8	11.2	19.6	5.2	8.0	4.2	7.0	1.7
Nonfinancial	696.0	-9.3	84.7	72.6	28.7	-1.8	16.6	12.2	4.3
Rest of the world	205.2	-18.2	-0.2	9.2	47.5	-10.9	-0.1	6.2	30.1
Receipts from the rest of the world	285.3	1.4	5.4	15.4	49.1	0.7	2.5	7.0	20.8
Less: Payments to the rest of the world	80.1	19.6	5.7	6.1	1.7	41.7	8.6	8.4	2.2
Less: Taxes on corporate income ...	243.7	11.0	-2.5	19.2	13.1	5.4	-1.2	9.1	5.7
Equals: Profits after tax	961.9	-18.8	98.1	82.4	68.2	-2.6	13.8	10.2	7.6
Net dividends	441.8	7.2	7.2	6.8	7.5	1.7	1.7	1.6	1.7
Undistributed profits from current production	520.2	-26.0	90.9	75.5	60.9	-8.2	31.0	19.7	13.3
Net cash flow	1,277.2	-27.5	86.1	77.2	70.6	-2.6	8.3	6.8	5.9
Industry profits:									
Profits with IVA	936.4	-3.3	12.7	70.6	72.2	-0.4	1.6	8.9	8.4
Domestic industries	731.2	14.9	13.0	61.3	24.8	2.4	2.1	9.5	3.5
Financial	278.0	18.4	-1.2	14.0	3.4	7.6	-0.5	5.4	1.2
Nonfinancial	453.2	-3.6	14.2	47.3	21.4	-1.0	3.8	12.3	5.0
Utilities	26.7	5.3	-7.0	0.4	5.2	23.2	-24.9	1.9	24.2
Manufacturing	121.1	-8.0	-6.8	17.4	23.4	-8.4	-7.8	21.7	24.0
Wholesale trade	48.2	-8.1	2.8	8.4	-2.8	-16.9	7.0	19.7	-5.5
Retail trade	78.2	-1.0	12.1	-0.7	-6.1	-1.4	16.6	-0.8	-7.2
Transportation and warehousing	14.5	3.2	7.3	1.8	-0.2	133.3	130.4	14.0	.....
Information	-4.7	1.2	3.4	10.3	-7.0	.....	.....	.....	.....
Other nonfinancial	169.1	3.7	2.6	9.5	8.9	2.6	1.8	6.3	5.6
Rest of the world	205.2	-18.2	-0.2	9.2	47.5	-10.9	-0.1	6.2	30.1
Addenda:									
Profits before tax (without IVA and CCAAdj)	958.1	14.0	-16.5	73.4	92.2	1.8	-2.0	9.3	10.6
Profits after tax (without IVA and CCAAdj)	714.5	2.9	-14.0	54.4	79.1	0.5	-2.4	9.4	12.4
IVA	-21.7	-17.3	29.3	-3.0	-19.9	.....	.....	.....	.....
CCAAdj	269.2	-4.4	82.9	30.9	9.1	-2.9	56.7	13.5	3.5

NOTE: Levels of these and other profits series are shown in NIPA tables 1.12, 1.14, 1.15, and 6.16D.
IVA Inventory valuation adjustment
CCAdj Capital consumption adjustment

outweighed a small increase in the other component of profits from the rest of the world—namely, payments by domestic affiliates to foreign parents.⁶ The increase in receipts was spread across various countries and industries. It is the ninth consecutive quarterly increase, and by far the largest. In part, the latest increase reflects the continued improvement in economic conditions abroad and the depreciation of the U.S. dollar in foreign exchange markets. (When the dollar depreciates, a given amount of foreign-currency earnings translates into a larger amount of dollar earnings.)

Profits of domestic nonfinancial corporations increased \$28.7 billion (4.3 percent), reflecting increases in unit profits and in real output.⁷ The increase in unit profits reflected an increase in unit prices and a small decrease in unit costs.

Profits of domestic financial corporations increased \$5.2 billion (1.7 percent).

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$70.6 billion.⁸ The ratio of cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated funds, rose to a record 110.2 in the fourth quarter, the third consecutive quarter in which the ratio exceeded 100. The ratio has risen steadily since the third quarter of 2000, when it stood at 69.2.

Industry profits. The current-production measure of profits is not available at the detailed industry level, because estimates of the capital consumption adjustment (CCAdj) do not exist at this level (CCAdj is only available for total financial industries and for total nonfinancial industries). Consequently, industry profits are best measured by profits with inventory valuation adjustment (IVA).

In the fourth quarter, domestic industry profits with IVA increased \$24.8 billion.

For domestic nonfinancial industries, profits with

6. Profits from the rest of the world is the difference between (1) receipts by U.S. residents of earnings from foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations and (2) payments by U.S. affiliates of earnings to foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

7. "Output" here is the gross value added of nonfinancial corporations. It measures the contribution of these businesses to the Nation's output, and it is measured as the sum of incomes generated by these businesses.

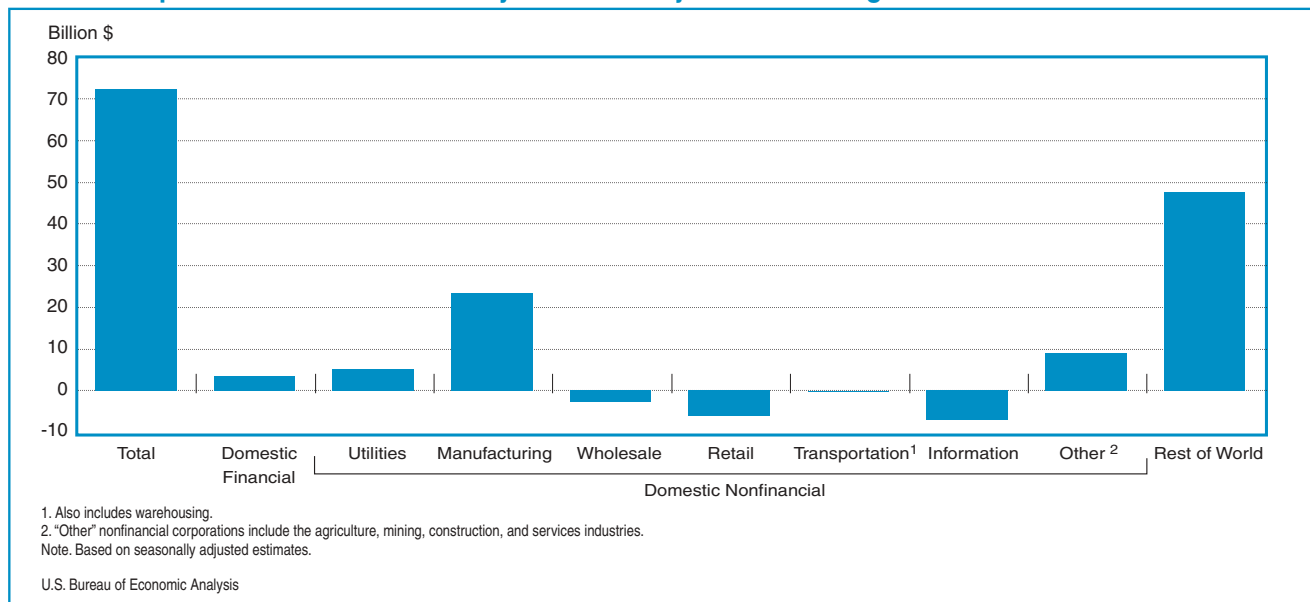
8. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

IVA increased \$21.4 billion. An increase in manufacturing profits of \$23.4 billion was largely accounted for by petroleum refiners, by manufacturers of motor vehicles, by manufacturers of “other durable goods” (including primary metals and wood products), and by manufactures of “other nondurable goods” (including plastics). The largest decreases were posted by manufacturers of chemicals and of electrical equipment.

Outside manufacturing, increases were also posted by the utilities sector and by “other nonfinancial” industries (including real estate) (chart 2).

For domestic financial industries, profits with IVA increased \$3.4 billion. The increase was mainly concentrated in life insurance carriers and real estate investment trusts. Profits of depository and nondepository credit intermediaries decreased.

Chart 2. Corporate Profits with Inventory Valuation Adjustment: Change from 2003:III to 2003:IV



Government Sector

"Net government saving," the difference between current receipts and current expenditures, was -\$378.0 billion in the fourth quarter, a smaller negative than the -\$481.8 billion in the third quarter (table 4).⁹ Reflecting the smaller shortfall of receipts in the fourth quarter, net government borrowing decreased \$114.2 billion; borrowing decreased at both the Federal and the state and local levels.¹⁰

Federal

Net Federal Government saving turned up, increasing \$77.0 billion in the fourth quarter after decreasing \$70.2 billion in the third quarter. Both current receipts and current expenditures turned up.

Current receipts. Federal current receipts increased \$92.4 billion in the fourth quarter after decreasing \$75.0 billion in the third quarter. The upturn was mostly attributable to an upturn in current tax receipts that was accounted for by an upturn in personal current taxes; taxes on production and imports and taxes from the rest of the world also turned up. The current surplus of government enterprises also turned up.

Personal current taxes increased \$70.6 billion after decreasing \$95.8 billion. The upturn resulted from a return to a more normal level for nonwithheld income taxes; in the third quarter, advance payments for the child tax credits, a provision of the Jobs and Growth Tax Relief Reconciliation Act of 2003, were disbursed. Taxes on production and imports increased \$3.6 billion after decreasing \$1.4 billion; the turnaround reflected an upturn in excise taxes for air transport that had been suspended in June and that were reinstated in October.

The current surplus of government enterprises increased \$1.0 billion after decreasing \$0.9 billion. The upswing was mostly attributable to a turnaround in the current surplus for the Postal Service, which increased \$0.9 billion after decreasing \$0.9 billion.

Tempering the upturn in current tax receipts, contributions for government social insurance decelerated, increasing \$5.6 billion after increasing \$6.6 bil-

Table 4. Government Sector Current Receipts and Expenditures

[Billions of dollars, seasonally adjusted at annual rates]

	Level	Change from preceding quarter				
	2003	2003				
	IV	I	II	III	IV	
Current receipts	3,084.5	-6.0	2.4	-25.7	113.9	
Current expenditures	3,462.5	58.2	80.8	16.6	10.2	
Net Government saving	-378.0	-64.2	-78.3	-42.5	103.8	
Social insurance funds	40.7	3.0	-10.2	1.0	0.2	
Other	-418.7	-67.4	-68.1	-43.3	103.5	
Federal Government						
Current receipts	1,881.3	3.8	0.4	-75.0	92.4	
Current tax receipts	1,059.1	-12.4	-3.2	-82.5	84.5	
Personal current taxes	769.4	-21.1	0.3	-95.8	70.6	
Taxes on production and imports	89.9	-0.7	-0.6	-1.4	3.6	
Taxes on corporate income	192.9	9.3	-3.1	14.9	10.1	
Taxes from the rest of the world	6.9	0.1	0.1	-0.2	0.2	
Contributions for government social insurance	770.7	13.2	3.4	6.6	5.6	
Income receipts on assets	25.9	0.5	1.1	1.3	1.0	
Current transfer receipts	27.1	0.6	0.3	0.6	0.2	
Current surplus of government enterprises	-1.5	1.9	-1.2	-0.9	1.0	
Current expenditures	2,299.2	27.9	104.5	-4.8	15.5	
Consumption expenditures	674.7	15.2	33.0	3.4	2.4	
National defense	449.5	4.0	38.9	-3.8	5.8	
Nondefense	225.2	11.2	-5.9	7.1	-3.3	
Current transfer payments	1,361.1	16.5	52.2	9.4	12.2	
Government social benefits	987.7	16.1	18.2	10.0	8.0	
To persons	984.8	16.1	18.1	10.1	7.9	
To the rest of the world	2.9	0.0	0.0	0.0	0.1	
Other current transfer payments	373.4	0.5	33.9	-0.6	4.2	
Grants-in-aid to state and local governments	353.3	-5.6	34.7	0.8	7.0	
To the rest of the world	20.0	6.0	-0.8	-1.4	-2.9	
Interest payments	219.6	-9.9	4.8	-6.9	4.0	
Subsidies	43.9	7.5	11.8	-9.3	-3.1	
Less Wage accruals less disbursements	0.0	1.4	-2.8	1.4	0.0	
Net Federal Government saving	-417.9	-24.1	-104.3	-70.2	77.0	
Social insurance funds	37.1	3.1	-10.3	0.9	0.1	
Other	-455.0	-27.1	-94.0	-71.1	76.9	
State and local government						
Current receipts	1,556.6	-15.4	36.7	50.1	28.6	
Current tax receipts	1,003.5	-8.3	-0.1	48.7	19.9	
Personal current taxes	245.1	-15.2	-9.5	34.1	5.4	
Taxes on production and imports	717.0	5.4	8.5	10.7	11.9	
Taxes on corporate income	41.3	1.4	1.1	3.8	2.5	
Contributions for government social insurance	14.0	0.1	0.1	0.1	0.1	
Income receipts on assets	94.3	-0.6	-0.5	0.0	0.4	
Current transfer receipts	439.2	-6.7	36.4	2.5	8.8	
Federal grants-in-aid	353.3	-5.6	34.7	0.8	7.0	
Other	85.9	-1.1	1.7	1.7	1.8	
Current surplus of government enterprises	5.6	0.1	0.8	-1.2	-0.6	
Current expenditures	1,516.6	24.8	10.8	22.3	1.7	
Consumption expenditures	1,049.5	21.6	-4.9	5.4	3.2	
Government social benefits	371.3	1.6	14.7	17.3	-4.4	
Interest payments	94.6	1.0	0.7	0.8	1.1	
Subsidies	1.2	0.6	0.3	-1.3	1.9	
Less Wage accruals less disbursements	0.0	0.0	0.0	0.0	0.0	
Net state and local government saving	39.9	-40.2	25.9	27.8	26.8	
Social insurance funds	3.5	0.0	0.0	0.1	0.0	
Other	36.4	-40.2	25.9	27.7	26.8	
Addendum:						
Net lending or net borrowing (-) ¹	-485.1	-55.8	-91.4	-50.9	114.1	
Federal	-441.7	-12.8	-128.7	-76.5	92.1	
State and local	-43.4	-43.0	37.4	25.5	22.0	

9. Net government saving was formerly termed "government current surplus or deficit (-), national income and product accounts."

10. "Net lending or net borrowing," an alternative measure of the government fiscal position, is also affected by capital transfer receipts, gross government investment, capital transfer payments, net purchases of nonproduced assets, and (with sign reversed) the consumption of fixed capital. See the addenda to NIPA tables 3.1-3.3.

1. "Net lending or borrowing" is similar to "net financial investment" in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.

lion. The deceleration was partly accounted for by a deceleration in contributions by employers, employees, and the self-employed for social security (old-age, survivors, disability, and health insurance trust funds), which increased \$5.6 billion after increasing \$6.4 billion.

Both current transfer receipts and income receipts on assets decelerated. Current transfer receipts increased \$0.2 billion after increasing \$0.6 billion. Income receipts on assets increased \$1.0 billion after increasing \$1.3 billion.

Current expenditures. Federal current expenditures increased \$15.5 billion in the fourth quarter after decreasing \$4.8 billion in the third quarter. The upswing was accounted for by upturns in interest payments and in “other current transfer payments” and by a smaller decrease in subsidies. The upswing was offset by decelerations in government social benefits and in consumption expenditures.

Interest payments increased \$4.0 billion after decreasing \$6.9 billion. Interest payments to persons and business turned up, increasing \$1.5 billion after decreasing \$7.1 billion, reflecting increased interest payments on the public debt. Interest payments to the rest of the world accelerated.

Subsidies decreased \$3.1 billion after decreasing \$9.3 billion. The smaller decrease was more than accounted for by an upturn in subsidies to air carriers, which increased \$0.1 billion after decreasing \$9.5 billion; the decrease followed large payments in the second quarter from the Transportation Security Administration for compliance with Federal aviation security legislation. Maritime subsidies increased \$0.2 billion after decreasing \$0.6 billion; the decrease followed large subsidies for port security in the second quarter. These increases were partly offset by a downturn in agricultural subsidies, which decreased \$3.2 billion after increasing \$1.0 billion.

“Other current transfer payments” increased \$4.2 billion after decreasing \$0.6 billion.¹¹ The upturn was mainly accounted for by an acceleration in grants-in-aid to state and local governments, which increased \$7.0 billion after increasing \$0.8 billion. The acceleration was accounted for by an upturn in grants for central executive, legislative, and judicial activities, which turned up as a result of payments from the Temporary State Fiscal Relief Fund that was authorized as part of

the Jobs and Growth Tax Relief Reconciliation Act of 2003. The acceleration was also attributable to upturns in grants for welfare and social services, for housing and community services, for natural resources, for labor training and services, and for agriculture. The acceleration was partly offset by downturns in grants for Medicaid, for “other income support,” for education, and for civilian safety; grants for health and hospitals decelerated, and grants for space turned down. “Other current transfer payments” to the rest of the world decreased more.

In contrast, government social benefits increased \$8.0 billion after increasing \$10.0 billion; the slowdown reflected a deceleration in government social benefits to persons, which increased \$7.9 billion after increasing \$10.1 billion. The deceleration reflected a downturn in unemployment insurance, which decreased \$3.0 billion after increasing \$2.4 billion. “Other government social benefits” to persons decelerated, increasing \$1.2 billion after increasing \$2.0 billion. Veterans social benefits turned down, and food stamp benefits decelerated. The slowdown in benefits to persons was partly offset by accelerations in benefit payments for Medicare (hospital and supplemental medical insurance) and for social security (old-age, survivors, disability, and health insurance).

Consumption expenditures also slowed, increasing \$2.4 billion after increasing \$3.4 billion. Nondefense consumption expenditures turned down, and defense consumption expenditures turned up.

Nondefense consumption expenditures decreased \$3.3 billion after increasing \$7.1 billion; the downturn reflected a downturn in nondefense services, which decreased \$3.4 billion after increasing \$5.7 billion. In services, nondefense research and development turned down, and compensation decreased.

Defense consumption expenditures turned up, increasing \$5.8 billion after decreasing \$3.8 billion. The upturn was mostly attributable to a turnaround in services, which increased \$4.2 billion after decreasing \$2.8 billion. In services, research and development turned up. Nondurable goods turned up primarily as the result of an upturn in spending for petroleum products. In contrast, compensation turned down, and civilian compensation decelerated.

State and local

Net state and local government saving decelerated, increasing \$26.8 billion in the fourth quarter after increasing \$27.8 billion in the third quarter. Both current

11. “Other current transfer payments” consists of Federal Government grants-in-aid to state and local governments and grants to foreign governments.

receipts and current expenditures decelerated.

Current receipts. State and local government current receipts increased \$28.6 billion in the fourth quarter after increasing \$50.1 billion in the third quarter. The deceleration was more than accounted for by a deceleration in current tax receipts; it was moderated by an acceleration in current transfer receipts and by a smaller decrease in the current surplus of government enterprises.

Current tax receipts increased \$19.9 billion after increasing \$48.7 billion. The deceleration was mainly accounted for by a deceleration in personal current taxes, which increased \$5.4 billion after increasing \$34.1 billion, mostly as a result of a deceleration in personal income taxes. Taxes on corporate income slowed, increasing \$2.1 billion after increasing \$3.8 billion.

Current transfer receipts increased \$8.8 billion after increasing \$2.5 billion. The acceleration was attributable to an acceleration in Federal grants-in-aid, which increased \$7.0 billion after increasing \$0.8 billion; the acceleration in Federal grants reflected payments from the Temporary State Fiscal Relief Fund. The current surplus of government enterprises decreased \$0.6 billion after decreasing \$1.2 billion.

Current expenditures. Current expenditures increased \$1.7 billion after increasing \$22.3 billion. Government social benefit payments turned down, and consumption expenditures slowed. In contrast, subsidies turned up, and interest payments accelerated.

Government social benefits decreased \$4.4 billion after increasing \$17.3 billion. The downturn was mostly attributable to a downturn in Medicaid payments.

Consumption expenditures increased \$3.2 billion after increasing \$5.4 billion. The slowdown resulted from slowdowns in compensation, in services, and in nondurable goods.

Subsidies increased \$1.9 billion after decreasing \$1.3 billion; the upturn reflected an upturn in payments to California electricity suppliers. Interest payments increased \$1.1 billion after increasing \$0.8 billion.

Net lending or net borrowing

“Net lending or net borrowing (–)” is an alternative measure of the government fiscal position.¹² Net lending is the financing requirement of the government sector, and it is derived as net government saving plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.

Net borrowing decreased \$114.1 billion in the fourth quarter after increasing \$50.9 billion in the third quarter. Federal Government net borrowing decreased \$92.1 billion as the result of the upturn in net Federal government saving. State and local government net borrowing decreased \$22.0 billion after decreasing \$25.5 billion as a result of a deceleration in net state and local government saving.

Government gross investment turned down, decreasing \$2.2 billion after increasing \$9.0 billion. State and local gross government investment decreased \$1.7 billion after increasing \$7.5 billion; Federal gross government investment decreased \$0.5 billion after increasing \$1.5 billion.

12. The estimates are shown in NIPA tables 3.1–3.3.